



# Treasury Financial Manual

Transmittal Letter No. 5

Volume IV

To: Treasury Tax and Loan Depositories

## 1. Purpose

This transmittal letter releases Volume IV Treasury Financial Manual (TFM). It issues codified instructions to guide financial institutions that qualify as Treasury tax and loan depositories and/or provide electronic tax deposit services.

## 2. Page Changes

### Remove

Table of Contents  
for Volume IV

IV TFM 1-1000

IV TFM 1-2000

### Insert

Table of Contents  
for Volume IV

IV TFM 1-1000

IV TFM 1-2000

IV TFM 1-2100

IV TFM 1-2200

IV TFM 1-2300

## 3. Effective Date

Upon receipt.

## 4. Inquiries

Direct questions concerning this transmittal letter to:

Directives Management Branch  
Financial Management Service  
Department of the Treasury  
3700 East-West Highway, Room 5C16  
Hyattsville, MD 20782  
Telephone: 202-874-9940

Date: July 14, 1999

Richard L. Gregg  
Commissioner



## Part 1—Chapter 2300

# TREASURY TAX AND LOAN INVESTMENT PROGRAM

---

**This chapter provides instructions and guidelines for depositaries that participate in the Treasury Tax and Loan Investment Program (TT&L IP).**

---

### Section 2310—Applicability

By accepting or originating Federal tax payments, the depositary is bound by IV TFM and applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations at Title 31 of the Code of Federal Regulations, Part 203 (31 CFR Part 203). The Treasury Financial Manual (TFM), and its amendments, are available on the Financial Management Service's (FMS's) website: [www.fms.treas.gov](http://www.fms.treas.gov).

---

### Section 2315—Authority

Title 31 CFR Part 203 governs:

- Treasury Tax and Loan (TT&L) depositaries that maintain and administer TT&L accounts and/or note balances.
- Collateral security requirements.

---

### Section 2320—Definitions

See IV TFM 1-2020 for definitions.

---

### Section 2325—Investment Program

Treasury uses the TT&L IP to temporarily invest excess operating funds. It invests funds in obligations of financial institutions designated as Note Option depositaries. Such obligations are in the form of open-ended

notes. The FRB reflects additions and reductions on its books. The FRB may require that depositaries participating in the investment program be electronically connected to the FRB. TT&L depositaries must pledge collateral to secure all funds invested with the TT&L IP per Section 2350.

### 2325.10—Eligibility

Any financial institution may apply to participate in the TT&L IP. Approval is based on the financial institution's financial condition as determined by the FRB, acting as Treasury's fiscal agent. If the financial institution is a State chartered bank or credit union, approval is based on the opinion of the State chartering authority.

### 2325.20—Application Process

To apply, a financial institution completes FMS 458: Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depositary, and FMS 459: Resolution Authorizing the Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depositary. It selects the Note Option on FMS 458. If the depositary is already a Remittance Option depositary, it completes an Election of Option Form. Financial institutions may obtain forms FMS 458 and 459 and the Election of Option Form from the FRB's Fiscal Services Department. The FRB certifies the financial institution as a depositary and pro-

vides notification of acceptance if approved.

### 2325.30—Effective Date

Following the application process, the FRB places the depositary in the Note Option as of the beginning of the next TT&L reporting cycle. Contact the FRB's Fiscal Services Department for the effective start date.

### 2325.40—Maximum Balance

Note Option depositaries declare an acceptable maximum investment amount (maximum balance) with the FRB. A depositary may change its maximum balance by notifying the FRB at least 1 business day in advance. However, a depositary should not change its maximum balance frequently. The FRB may impose sanctions on depositaries that frequently reduce their maximum balance without 1 business day advance notice. The established maximum balance must be at least \$25,000.

### 2325.50—Collateralization of Note Balances

Treasury requires that a depositary's maximum balance be fully secured by a pledge of collateral at all times (see Section 2350). This applies unless the depositary is participating in the Direct Investment (DI) or Special Direct Investment (SDI)

Program (see Sections 2335 and 2340).

### **2325.60—Sources of Investments**

Funds invested in a depository's note balance include monies received as FTD coupons, EFTPS Automated Clearing House (ACH) credit and debit entries, Fedwire non-value transactions, and Fedline Taxpayer Deposit Applications.

#### **FTD Coupons**

A TT&L depository posts the funds remitted with FTD coupons to its TT&L account on the business day of the taxpayer's deposit. The FRB posts the amount on the Advice of Credit (AOC) to the depository's note balance on the business day after the date shown on the AOC. These funds remain invested in the note balance until removed through a Treasury-initiated withdrawal. In addition, the FRB automatically withdraws all funds in excess of the depository's maximum balance.

#### **EFTPS ACH Credit and Debit Entries**

The FRB posts ACH tax payments to the note balance on the day of settlement. Both the ACH debit and credit transfer mechanisms result in a debit to the reserve account of the depository, or its designated correspondent, and a credit to Treasury for the amount of the ACH tax deposit or payment at the appropriate ACH posting time. The FRB posts ACH credits at 8:30 a.m. eastern time and debits at 11 a.m. eastern time.

Each business day, EFTPS provides summary files to the FRBs containing ACH tax deposit or payment activity for financial institutions and depositories in their districts. The FRBs process this information through the TT&L system. For a Note Option depository, this process includes crediting the reserve account (or designated TT&L correspondent's reserve account) and posting the funds to the depository's

note balance for the amount of the ACH activity. This process offsets the resulting debit to the reserve account balance for the same ACH transaction. These funds remain invested in the note balance until removed through a Treasury-initiated withdrawal. In addition, the FRB automatically withdraws all funds in excess of the depository's maximum balance.

#### **EFTPS Fedwire Non-Value and Fedline Taxpayer Deposit Application Transactions**

The FRB posts Fedwire non-value and Fedline Taxpayer Deposit Application transactions to the note balance before close of business on the day of settlement. These funds remain invested in the note balance until removed through a Treasury-initiated withdrawal. In addition, the FRB automatically withdraws all funds in excess of the depository's maximum balance.

#### **EFTPS Fedwire Value (Typecode 1000) Payments**

EFTPS Fedwire value payments are not sources of investments. Therefore, the FRB does not post them to the note balance. It debits Fedwire value tax payments against the reserve account of the financial institution or depository and credits them to the Treasury General Account (TGA) immediately upon receipt.

#### **Additional Sources of Investments**

The DI and SDI Programs provide additional investment sources to Note Option depositories (see Sections 2335 and 2340).

### **2325.70—Same-Day Drawdowns**

Treasury requires that depositories pledge sufficient, acceptable collateral to prevent collateral deficiencies. Occasionally, the depository receives large deposits

through the paper-based FTD system that the depository cannot fully collateralize. To avoid a collateral deficiency, depositories may request the FRB withdraw all or a portion of the deposits received that business day. The FRB's Fiscal Services Department provides procedures for same-day drawdowns.

### **2325.80—Withdrawal (Call) of Balances**

The Secretary of the Treasury directs calls for payment of note balances through the FRBs. The FRB determines a call of balance by the depository's class. (For information on depository classes, see IV TFM 1-2035.) Treasury attempts to provide advance notice whenever possible as determined by the depository's class. However, the amount of the note balance is payable on demand without prior notice. Generally, the following apply for each of the classes.

The FRB gives Note Option Class A depositories 5 business days' notice. It contacts them by Fedline, voice response or mail. The FRB posts the call to the note balance and debits the reserve account on the date specified in the notice.

The FRB gives Note Option Class B depositories 3 business days' notice. It contacts them by Fedline, voice response or mail. The FRB posts the call to the note balance and debits the reserve account on the date specified in the notice.

The FRB gives Note Option Class C depositories either 1 business day prior or same business day notice as determined by Treasury.

- One business day prior notice—The FRB contacts the depository by Fedline, voice response or telephone by noon eastern time 1 business day before the call. It posts the call to the note balance and debits the reserve account on the date specified in the notice.

- Same-day notice—The FRB contacts the depository by Fedline, voice response or telephone by noon eastern time on the business day of the call. It posts the call to the note balance and debits the reserve account by the end of the business day.

---

### **Section 2330—Changes of Option for TT&L Depositories**

A depository may change options (between note and remittance) by providing notice to the FRB's Fiscal Services Department at least 5 business days before the next reporting cycle. The depository is subject to the provisions of the existing option until it receives formal notification from the FRB of the change in option. All changes are effective as of the beginning of a reporting cycle. A depository should not change options more than three times annually.

#### **2330.10—Note Option Depository**

Upon notification of change from Note Option to Remittance Option, the FRB does the following:

- Withdraws the note balance on its books on the effective date of the change to the Remittance Option. The FRB does not process any calls for payment with an effective date after the change in option.
- Places a depository in Remittance Class 1 or 2 (see IV TFM 1-2035).
- Processes all FRB TT&L Application Deposits received or settled on and after the effective date of change per Remittance Option procedures.

#### **2330.20—Remittance Option Depository**

Upon notification of change from Remittance Option to Note Option, the FRB does the following:

- Places a depository in Note Option Class A, B or C (see IV TFM 1-2035).
- Processes all FRB TT&L Application Deposits received or settled on and after the effective date of change per Note Option procedures.
- Subjects all AOCs dated before, but received after, the effective date to Remittance Option requirements for the time between the AOC date and the effective date of the change in option. The FRB adds the amount of these AOCs to the note balance as of the effective date of the change in option. If an assessment of late charges is in order, the FRB assesses it for the time before the effective date of the change in option.

### **2330.30—Termination of Acceptance of FTD Coupons**

A depository may stop accepting FTD coupons after written notification to the FRB's Fiscal Services Department.

#### **Customer Notification**

A depository should give its customers a minimum of 60 calendar days notice (90 calendar days is preferable) of its decision to terminate acceptance of FTD coupons. As a customer service, depositories should make EFTPS enrollment forms available to their customers.

#### **Note Option Impact**

Termination of FTD processing functions does not affect a depository's right to participate in the TT&L IP. Credits to the note balance may include ACH debit and credit entries, Fedwire non-value transactions, and Fedline Taxpayer Deposit Application transactions. Termination of FTD coupon processing functions does not affect the depository's ability to process EFTPS transactions.

### **Remittance Option Impact**

Termination of FTD coupon processing functions does not affect the depository's ability to process EFTPS transactions. The term "Remittance Option" relates to the processing of FTD coupons. Therefore, when the FRB accepts a Remittance Option depository's decision to terminate FTD coupon processing, the Remittance Option depository becomes a financial institution (a financial institution processing EFTPS deposits and payments) for purposes of IV TFM. This applies unless it chooses to become a Note Option depository.

---

### **Section 2335—Direct Investment (DI) Program**

The DI Program offers a portion of Treasury's excess operating funds directly to those Note Option depositories that elect to receive these investments. The FRB may require that depositories participating in the DI Program be electronically connected to the FRB.

#### **2335.10—DI Application Process**

A depository electing to participate in the DI Program must submit a completed Offer to Receive Direct Investments form. The depository obtains the form from and submits it to the FRB's Fiscal Services Department. A depository must elect one of the DI notification arrangement options listed in paragraph 2335.15. The FRB notifies the depository of the effective date it qualifies to act under the elected notification arrangement.

A depository is bound to the elected arrangement until it formally submits a written change request to the FRB and the FRB processes the request.

### **2335.15—DI Notification Arrangements**

The difference between the depository's maximum balance and its current note balance is called capacity. The FRB distributes DI funds on the basis of capacity to participating depositories per the following notification arrangements:

#### ***One-Day Prior Notice***

The FRB notifies each depository participating under the 1-day prior notice arrangement of a DI 1 business day before posting the funds to the depository's, or its TT&L correspondent's, reserve account.

#### ***Same-Day Notice***

Depositories electing to participate in the 1-day prior notice arrangement may also elect to participate in the same-day notice arrangement. Under the same-day notice arrangement, the FRB notifies a depository of a DI on the same-day, and at the same approximate time, as it credits the funds to the reserve account of the depository or its TT&L correspondent.

### **2335.20—DI Program Distribution**

The FRB distributes DI funds to each participant on either a 1-day prior notice arrangement or a 1-day prior notice and same-day notice arrangement (see paragraph 2335.15). It distributes DI funds on the basis of capacity.

### **2335.25—Examples of DI Distributions**

#### ***Example: 1-Day Prior Notice***

The total capacity of all DI depositories electing 1-day prior notice distributions is \$6 billion at the close of business on Tuesday (day one). Treasury elects to directly invest \$3 billion on Thursday (day three). The FRB would calculate and distribute this DI based on the capacity of Tuesday (day one) and would

announce it on Wednesday (day two). On Thursday (day three), the FRB would distribute to each 1-day prior notice depository DI funds equal to 50 percent of each individual depository's Tuesday (day one) available capacity.

Using the information in the above example: On Wednesday, the FRB would notify a depository with a preestablished maximum balance of \$500 million and a closing balance on Tuesday of \$200 million that it will receive a transfer of \$150 million of Treasury's excess operating funds (50 percent of its \$300 million available capacity). On Thursday, the FRB would credit the DI funds to the reserve account of the depository or its TT&L correspondent and add them to the depository's note balance.

#### ***Example: Same-Day Notice***

The total capacity of all DI depositories electing same-day notice is \$4 billion at the close of business on Tuesday (day one). Treasury elects to directly invest \$1 billion on Wednesday (day two). Therefore, on Wednesday, the FRB would distribute to each same-day notice depository DI funds equal to 25 percent of each individual depository's available capacity.

Using the information in the above example: On Wednesday, the FRB would notify a depository with a preestablished maximum balance of \$700 million and a closing balance on Tuesday of \$300 million that it will receive a DI of \$100 million of Treasury's excess operating funds (25 percent of its \$400 million available capacity). The FRB would credit the DI funds to the reserve account of the depository or its TT&L correspondent and add them to the depository's note balance on Wednesday.

### **2335.30—DI Maximum Balance**

DI depositories must declare an acceptable maximum investment amount with the FRB's Fiscal Service Department. The established maximum balance for depositories

participating in the DI Program must be at least \$125,000. The maximum balance for the DI Program should be higher than the depository's daily peak balance normally generated by its FRB TT&L Application Deposits.

The FRB, at its discretion, may permit the depository to reduce its maximum balance below \$125,000 on a temporary basis.

To change the amount of its maximum balance, the depository must provide the FRB at least 1 business day advance notice of the change. A depository should not change its maximum balance frequently. The FRB may impose sanctions on a depository that frequently reduces its maximum balance.

### **2335.35—DI Announcements**

Depending on the services provided by the FRB, it may notify depositories of a DI by Fedline or telephone.

The FRB notifies DI depositories under the 1-day prior notice arrangement by 12:30 p.m. Managing Reserve Bank Head Office Local Zone Time (MRB Head Office LZT) on the business day before it places DI funds in the depository's, or its TT&L correspondent's, reserve account.

Under the same-day notice arrangement, the FRB notifies DI depositories by 12:30 p.m. MRB Head Office LZT on the business day it places DI funds in the depository's, or its TT&L correspondent's, reserve account.

### **2335.40—Timing for DI Funds**

The FRB posts DI funds to a depository's note balance at the same time the funds are credited to the reserve account of the depository or its TT&L correspondent. Under the 1-day prior notice arrangement, it posts DI funds to the depository's note balance and credits them to the depository's reserve account on the day of placement (1 business day after the day of announcement). The

FRB posts DI funds under the same-day notice arrangement to the depository's note balance and credits them to the depository's, or its TT&L correspondent's, reserve account no later than the day of announcement.

Interest begins to accrue on the date the FRB posts the funds to the depository's note balance.

### **2335.45—Withdrawal (Call) of Balances Placed as DIs**

The FRB does not differentiate funds received by depositories under the DI Program from any other part of the depository's note balance. Therefore, these balances are subject to call on the same basis as any other part of the note balance, under the call procedures applying to the depository's class (see paragraph 2325.80).

### **2335.50—DIs Not Included in Totals Used for Reclassification**

Annually, the FRB reclassifies Note Option depositories into Classes A, B and C (see IV TFM 1-2035). It classifies a depository based on its:

- FRB TT&L Application Deposits during the previous calendar year.
- Deposit liability (both demand and time) as of September 30 of the previous year.
- Maximum balance.

The FRB does not include funds received by depositories under the DI Program in the figures used for reclassification.

### **2335.55—Collateral Requirement for DI Balances**

A depository must secure its note balance by a pledge of collateral per Section 2350. A DI depository sets a maximum balance, for DI fund purposes, higher than its anticipated daily peak FRB TT&L Application Deposits. Treasury does not require that the DI depository pledge collateral continuously in the amount of the preestablished maximum balance.

However, it does require that each DI depository be prepared to pledge additional collateral no later than the day the DI is placed. The collateral must cover the total FRB TT&L Application Deposits and DI funds received. The FRB must receive acceptable and sufficient collateral before the end of the day the DI is placed. If a DI depository has a history of frequent collateral deficiencies, Treasury may require that the depository pledge collateral equal to its preestablished maximum balance.

---

## **Section 2340—Special Direct Investment (SDI) Program**

An SDI is a placement of Treasury's excess operating funds secured by an off-premises collateral (OPC) arrangement. The FRB may require that depositories participating in the SDI Program be connected electronically to the FRB.

Treasury, as a creditor and acting through the FRBs, obtains a perfected security interest in collateral pledged by a depository to secure an SDI. Treasury does not take possession of the collateral pledged for a 21-day period from the time the security interest in the collateral attaches (that is, when the FRB credits SDI funds to the depository's reserve account). A written security agreement must be in effect, and the debtor must have rights in the collateral. Because of the 21-day limit, Treasury's internal procedures ensure that balances placed with depositories under SDIs do not remain with depositories longer than 21 calendar days.

### **2340.10—Eligibility Requirements**

A depository electing to participate in the SDI Program must:

- Currently participate in the DI Program (see Section 2335).
- Pledge OPC collateral in a minimum amount of \$2.5 million. The amount of collateral pledged under the OPC ar-

angement cannot exceed an amount equal to 10 percent of a depository's total assets based on the depository's December call report or yearend balance sheet.

- Abide by the same terms and conditions of the FRB's Borrower-in-Custody of Collateral (BIC) Program used by depositories to secure borrowings from the FRB. For BIC requirements, contact the FRB's Fiscal Services Department.

### **2340.15—SDI Application Process**

A depository electing to participate in the SDI Program must submit a completed Agreement to Secure Special Direct Investment form to the FRB's Fiscal Services Department. The depository must submit a completed security agreement and other FRB required forms or statements with the form. The FRB reviews the forms and other information for compliance with prescribed terms and eligibility requirements. A depository must elect one of the SDI notification arrangements listed in paragraph 2340.20. The FRB notifies the depository of the effective date it qualifies to act under the elected notification arrangement.

The FRB's Fiscal Services Department provides all the required forms. In addition, it provides instructions to establish the OPC arrangement.

A depository is bound to the elected arrangement until it formally submits a written change request to the FRB and the FRB processes the request.

### **2340.20—SDI Notification Arrangements**

The FRB announces an SDI in the same way it currently announces placement of funds in the DI Program. The difference between the de-

positary's collateral value (see paragraphs 2340.65, Collateral Valuation, and 2350.20) pledged to the SDI Program and its current SDI balance is called the SDI capacity. The FRB distributes SDI balances based on SDI capacity to participating depositories per the following notification arrangements.

#### ***One-Day Prior Notice***

The FRB notifies each depository participating under the 1-day prior notice arrangement of an SDI 1 business day before it distributes the funds.

#### ***Same-Day Notice***

Depositories electing to participate in the 1-day prior notice arrangement also may elect to participate in the same-day notice arrangement. Under the same-day notice arrangement, the FRB notifies a depository of an SDI on the same day, and at the same approximate time, as it credits the funds to the reserve account of the depository or its TT&L correspondent.

#### **2340.25—SDI Program Distribution**

The FRB distributes SDI funds to each participant on either a 1-day prior notice arrangement or a 1-day prior notice and same-day notice arrangement. It distributes SDI funds based on SDI capacity.

#### **2340.30—Examples of SDI Distributions**

##### ***Example: 1-Day Prior Notice***

The total capacity of all SDI depositories electing 1-day prior notice is \$6 billion at the close of business on Tuesday (day one). Treasury elects to directly invest \$3 billion on Thursday (day three). The FRB would calculate and distribute this SDI based on the capacity of Tuesday (day one) and would announce it on Wednesday (day two). On Thursday (day three), the FRB would distribute

to each 1-day prior notice depository SDI funds equal to 50 percent of each individual depository's Tuesday (day one) available capacity.

Using the information in the above example: On Wednesday, the FRB would notify a depository with an SDI collateral value of \$500 million and a closing balance on Tuesday of \$200 million that it will receive an SDI transfer of \$150 million of Treasury's excess operating funds (50 percent of its \$300 million available capacity). On Thursday, the FRB would credit the SDI funds to the depository's reserve account and add them to the depository's note balance.

##### ***Example: Same-Day Notice***

The total SDI collateral value of all SDI depositories electing same-day notice is \$4 billion at the close of business on Tuesday (day one). Treasury elects to directly invest \$1 billion on Wednesday (day two). Therefore, on Wednesday, the FRB would distribute to each same-day notice depository SDI funds equal to 25 percent of each individual depository's available capacity.

Using the information in the above example: On Wednesday, the FRB would notify a depository with an SDI collateral value of \$700 million and a closing balance on Tuesday of \$300 million that it will receive SDI funds of \$100 million (25 percent of its \$400 million available capacity). The FRB would credit the SDI funds to the depository's reserve account and add them to the depository's note balance on Wednesday.

#### **2340.35—SDI Maximum Balance**

An SDI depository must declare an acceptable maximum SDI balance with the FRB's Fiscal Services Department by pledging that value of collateral. To change the amount of collateral pledged to secure SDI balances, the depository must provide

the FRB at least 1 business day advance notice of the change.

#### **2340.40—Minimum Amount of SDI Funds**

Treasury may place any amount of SDI funds. There is no minimum amount. However, in no case will the depository's SDI balance exceed the collateral pledged.

#### **2340.45—SDI Announcements**

Depending on the services provided by the FRB, it may notify depositories of an SDI by Fedline or telephone. The FRB notifies SDI depositories under the 1-day prior notice arrangement by 12:30 p.m. MRB Head Office LZT on the day before it places SDI funds in the depository's reserve account. The FRB notifies SDI depositories under the same-day notice arrangement by 12:30 p.m. MRB Head Office LZT on the day it places SDI funds in the depository's reserve account.

#### **2340.50—Timing for SDI Funds**

The FRB adds SDI funds to a depository's note balance at the same time it credits the funds to the depository's reserve account. Under the 1-day prior notice arrangement, the FRB posts SDI funds to the depository's note balance and credits them to the depository's reserve account on the day of placement (1 day after the day of announcement). Under the same-day notice arrangement, the FRB posts SDI funds to the depository's note balance and credits them to the depository's reserve account on the day of announcement.

Interest begins to accrue on the date the FRB adds the funds to the note balance.

#### **2340.55—Withdrawal (Call) of Balances Placed as SDIs**

To differentiate between DI and SDI balance calls, the FRB withdraws SDI balances by specifically



stating that the balances were placed as SDI balances. In this way, the FRB maintains control over the balances secured by OPC arrangements for monitoring the 21-day calendar rule (see Section 2340). It notifies the depository of the call by Fedline or telephone no later than 12:30 p.m. MRB Head Office LZT. SDI balances are payable on demand without prior notice. However, Treasury generally provides 1-day prior notice.

#### **2340.60—SDIs Not Included in Totals Used for Reclassification**

Annually, the FRB reclassifies Note Option depositaries into Classes A, B and C (see IV TFM 1-2035) based on the depository's:

- FRB TT&L Application Deposits during the previous calendar year.
- Deposit liability (both demand and time) as of September 30 of the previous year.
- Maximum balance.

The FRB does not include funds received by depositaries under the SDI Program in the figures used for reclassification.

#### **2340.65—Collateral Requirements for SDI Balances**

The FRB must approve the pledging depository's collateral procedures to secure SDI balances. It subjects these procedures to the same terms and conditions of its BIC Program used by depositaries to secure borrowings from the FRB.

#### ***Collateral Location***

The pledging depository, which retains possession of the collateral on its own premises in the OPC arrangement, holds the collateral to secure SDI balances. It must hold the collateral available at all times for on-site FRB review.

#### ***Acceptable Types of Collateral to Secure SDI Balances***

Eligible collateral to secure SDI balances includes but is not limited to:

- One-to-four family mortgages.
- Insured student loans (notes representing educational loans insured or guaranteed under the program authorized by Title IV of the Higher Education Act of 1965, as amended, or Title VII of the Public Health Services Act, as amended).

Contact the FRB's Fiscal Services Department for specific information on the acceptability of collateral pledged to secure SDI balances.

#### ***Collateral Valuation***

The FRB applies the same value and techniques used for collateral under its BIC Program to collateral pledged under OPC arrangements. When a depository pledges declining balance collateral, the FRB requires that the depository furnish at least monthly (or more frequently at the FRB's request) an updated statement showing the revised value of the collateral pledged.

#### ***Collateral Amount***

All SDI balances must be 100 percent collateralized.

#### **2340.70—Advice of Custody Information**

Depositaries participating in the SDI Program must comply with FRB instructions. They must submit appropriate collateral reports to the FRB as required.

---

#### **Section 2345—Computation and Collection of Interest on Note Balances**

The FRB charges interest on a depository's note balance from the date it credits the funds to the note balance. It determines the amount of in-

terest due by applying the weekly interest rate factor to the average daily note balance for each week of the reporting cycle.

#### **2345.10—Computation and Basis of Interest Charges on Note Balances**

The FRB determines the interest on the note balance by multiplying the Interest Rate Factor for the Investment Program by the average daily amount of the note balance for each week. It determines the average daily amount by dividing the sum of the daily closing note balances by 7. The weekly period runs from Thursday through Wednesday. The balance at the close of business on Friday is carried forward for Saturday and Sunday. For other FRB nonbusiness days, the previous business day's balance is carried forward as the balance for the nonbusiness calendar day.

On the second business day after the close of a TT&L reporting cycle, the FRB collects interest due Treasury through the depository's reserve or clearing account, or the designated TT&L correspondent's reserve account. The FRB includes this information in the depository's monthly statement (see IV TFM 1-2040).

---

#### **Section 2350—Collateral Security Requirements**

The terms and conditions in 31 CFR Part 203, as amended, require that a TT&L depository pledge acceptable collateral security. The pledged collateral security must cover all amounts credited to the depository's TT&L account in excess of recognized insurance coverage and the total established maximum balance in the depository's note balance, if applicable.

If the depository:

- Fails to pay, when due, the whole or any part of the funds received for credit to its TT&L account, and/or if applicable, its note balance.

- Violates or fails to perform any of the terms of 31 CFR Part 203.
- Fails to pay when due amounts owed to the United States or the U.S. Treasury.

OR

- Is closed for business by regulatory action or by proper corporate action, or a receiver, conservator, liquidation or any other officer is appointed.

Then, the Secretary of the Treasury, with or without notice or demand, may:

- Redeem or sell, at either public or private sale(s), or otherwise collect the proceeds of all or part of the collateral, including additions or substitutions.
- Apply the proceeds, after deducting all necessary expenses of such redemptions or sale(s), to the payment of funds received by the depository, or other indebtedness of the depository, to satisfy any claim of the United States against the depository.

Treasury will hold separate and apart from any other asset all principal and interest payments on any collateral pledged to protect the note balance, if applicable, and/or the TT&L account, if applicable, due as of the date of the insolvency or closure, or thereafter becoming due. These payments will constitute a part of the pledged collateral available to satisfy any claim of the United States.

### 2350.10—Acceptable Collateral

The Bureau of the Public Debt (BPD) has the regulatory authority and procedural responsibility to establish acceptable collateral. It determines the collateral valuation for the TT&L Program. Collateral to fully secure the TT&L account and note balance must be marketable securities or instruments.

The FRB's Fiscal Services Department provides information on the acceptability of specific collateral within the acceptable classes. Unless specified otherwise by Treasury, the

following are classes of acceptable collateral:

- Obligations issued, fully insured, or guaranteed by the Government or any Government agency.
- Zero-coupon obligations of the Government.
- Obligations of Government-sponsored corporations that, under specific statute, may be accepted as security for public funds.
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank or the African Development Bank.
- Obligations partially insured or guaranteed by a Government agency.
- Insured student loans or notes representing educational loans insured or guaranteed under a program authorized under Title IV of the Higher Education Act of 1965, as amended, or Title VII of the Public Health Services Act, as amended.
- General obligations issued by the States and Puerto Rico.
- Obligations of counties, cities or other governmental authorities or instrumentalities within the United States that are not in default as to payments on principal or interest and that may be purchased by banks as investment securities under the limitations established by appropriate Federal bank regulatory agencies.
- Obligations of domestic corporations that may be purchased by banks as investment securities under the limitations established by appropriate Federal bank regulatory agencies.
- Qualifying commercial paper, commercial and agricultural loans, and bankers' acceptances approved by the Federal Reserve System.

### 2350.20—Collateral Valuation

Generally, BPD applies a TT&L collateral valuation consistent with the Federal Reserve System guidelines for valuation of the same types of collateral pledged to secure borrowings from the FRB (discount window). The FRBs, at the direction of Treasury, apply a collateral valuation approach that relies on market values for assets where reliable and active markets exist. Where market information is not readily available, the FRB considers major risks inherent in the assets pledged in determining collateral value. Contact the FRB's Fiscal Services Department for valuations assigned to specific collateral.

### 2350.30—Custody of Collateral

Depositories place collateral security with the FRB, or a custodian within the United States designated by the FRB, under terms and conditions as prescribed by the FRB. Depositories also may pledge collateral under an extended custody arrangement. The FRB's Fiscal Services Department provides terms and conditions that permit depositories to pledge collateral under an extended custody arrangement.

SDIs must be secured by OPC arrangements (see paragraph 2340.65).

The FRB must authorize all custodians, and all custodians are subject to FRB review procedures, including on-site review. If one FRB authorizes a custodian under an agreement form, the authorization automatically is binding throughout the Federal Reserve System. The custodian must ensure the pledged collateral satisfies FRB-prescribed collateral standards.

Contact the FRB's Fiscal Services Department for a list of collateral custodians and extended collateral custodians.

### 2350.40—Ownership of Collateral

The depository must own all collateral free and clear of liens, charges and claims.

## **Contacts**

***Direct inquiries concerning operating procedures in this chapter to the district Federal Reserve Bank, Fiscal Services Department.***

***Direct additional inquiries concerning policies, guidelines and operating procedures (except acceptable collateral and collateral valuation as noted below) to:***

Financial Services Division  
Financial Management Service  
Department of the Treasury  
401 14th St., SW., Room 313  
Washington, DC 20227  
Telephone: 202-874-6580

***Direct inquiries concerning acceptable collateral and collateral valuation the FRB's Fiscal Services Department cannot resolve to:***

Government Securities Regulations Staff  
Bureau of the Public Debt  
Department of the Treasury  
999 E St. NW., Room 315  
Washington, DC 20239  
Telephone: 202-691-3632

# TREASURY FINANCIAL MANUAL

## TABLE OF CONTENTS

Chapter	Section	Title
<b>1000</b>		<b>PURPOSE AND PLAN OF VOLUME IV</b>
	1010	Authority
	1015	Arrangement of the TFM
	1020	Transmittal Letters
	1025	TFM Bulletins
	1030	Distribution
	1035	Inquiries
		Contacts
<b>2000</b>		<b>FEDERAL TAX COLLECTIONS—OVERVIEW</b>
	2010	Applicability
	2015	Authority
	2020	Definitions
	2025	Tax Collection Systems Overview
	2030	Difference Between Financial Institutions and Depositories
	2035	Classification of Depositories
	2040	Statements to Depositories and Financial Institutions
		Contacts
<b>2100</b>		<b>FEDERAL TAX COLLECTIONS USING THE FEDERAL TAX DEPOSIT SYSTEM</b>
	2110	Applicability
	2115	Authority
	2120	Definitions
	2125	Accepting, Dating, Forwarding and Adjustment Procedures for FTDs
	2130	Compensation for Services
	2135	Charges for the Improper Processing of Federal Tax Deposits
	2140	Computation and Collection of FTD Late Fees
	2145	Temporary Secondary TT&L Accounts Due to a Merger
		Contacts

**2200**

**FEDERAL TAX COLLECTIONS USING THE ELECTRONIC  
FEDERAL TAX PAYMENT SYSTEM**

2210	Applicability
2215	Authority
2220	Definitions
2225	Electronic Federal Tax Payment System
2230	EFTPS Enrollment Processing
2235	Conditions for Making an EFTPS Payment
2240	Electronic Future-Day Federal Tax Payment Mechanisms (ACH)
2245	Electronic Same-Day Federal Tax Payment Mechanisms
2250	Interest Assessment for the Improper Processing of Electronic Federal Tax Payments
	Contacts

**2300**

**TREASURY TAX AND LOAN INVESTMENT PROGRAM**

2310	Applicability
2315	Authority
2320	Definitions
2325	Investment Program
2330	Changes of Option for TT&L Depositories
2335	Direct Investment (DI) Program
2340	Special Direct Investment (SDI) Program
2345	Computation and Collection of Interest on Note Balances
2350	Collateral Security Requirements
	Contacts